

CITY OF LAMONI
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 10-11
Notes to Financial Statements	13-22
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) – All Governmental	
Funds	24
Notes to Required Supplementary Information – Budgetary Reporting	25
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 27-32
Schedule of Indebtedness	2 33-34
Bond and Note Maturities	3 35-36
Schedule of Receipts by Source and Disbursements by Function –	
All Governmental Funds	4 37
Independent Auditors' Report on Internal Control over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with Government Auditing Standards	39-40
Schedule of Findings	41-46

City of Lamoni

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
James Hammer	Mayor	Jan 2006
Janelle Anders	Council Member/Mayor Pro tem	Jan 2006
Mark Ballantyne	Council Member	Jan 2006
Steve Murdock	Council Member	Jan 2005
Roger Potts	Council Member	Jan 2005
Ted Smith	Council Member	Jan 2006
(After January 2005)		
James Hammer	Mayor	Jan 2006
Janelle Anders	Council Member/Mayor Pro tem	Jan 2006
Mark Ballantyne	Council Member	Jan 2006
Steve Murdock	Council Member	Jan 2008
Roger Potts	Council Member	Jan 2008
Ted Smith *	Council Member	Jan 2006
Deanna Ballantyne	City Clerk/Administrator/Treasurer	Jan 2006
Susan Larson	Deputy Clerk	Jan 2006
Robert Rolfe	Attorney	Jan 2006

* Resigned in May 2005 and was replaced by Diane Gray

City of Lamoni

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying governmental fund type financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lamoni, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These governmental fund type financial statements are the responsibility of the City of Lamoni's management. Our responsibility is to express opinions on these governmental fund type financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the governmental fund type financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the governmental fund type financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall governmental fund type financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these governmental fund type financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 1, the governmental fund type financial statements present only the governmental fund types and do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Lamoni, Iowa, in conformity with U.S. generally accepted accounting principles.

Management has not included the Electric, Water, Sewer and Gas Funds in the City of Lamoni financial statements. GASB requires these funds to be presented as enterprise funds and financial information about these funds to be part of the business-type activities, thus increasing those activities receipts and disbursements. The amount by which this departure would affect the receipts and disbursements of the business-type activities is not reasonably determinable.

In our opinion, because of the omission of the Electric, Water, Sewer and Gas Funds as discussed above, the governmental fund type financial statements referred to above do not present fairly, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information City of Lamoni as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, except for the effects of not including financial information for the Electric, Water, Sewer and Gas Funds as part of the business-type activities, as described

above, the governmental fund type financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lamoni, as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2005 on our consideration of the City of Lamoni's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Budgetary comparison information on pages 24 through 25 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lamoni's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 25, 2005
Ames, Iowa

City of Lamoni

Basic Financial Statements

City of Lamoni

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		Charges for Service	Operating Grants, Contributions, and Restrictd Interest	Capital Grants, Contributions and Restricted Interest	Total Governmental Activities
Functions/Programs:					
Governmental activities:					
Public safety	\$ 240,421	11,211	34,613	-	(194,597)
Public works	395,564	150,502	248,590	-	3,528
Culture and recreation	280,795	29,318	64,320	-	(187,157)
Community and economic development	75,298	4,174	18,815	-	(52,309)
General government	136,823	-	-	-	(136,823)
Debt service	275,348	-	180,260	-	(95,088)
Capital projects	578,299	-	-	230,242	(348,057)
Total governmental activities	1,982,548	195,205	546,598	230,242	(1,010,503)
Total	\$ 1,982,548	195,205	546,598	230,242	(1,010,503)
General Receipts:					
Property tax levied for:					
General purposes					294,173
Employee benefits					107,952
Debt service					70,571
Tax increment financing					46,607
Mobile home tax					649
Franchise tax					14,987
Local option sales tax					110,783
Unrestricted interest on investments					2,797
Rent					18,505
Refunding bond proceeds, net of \$10,500 discount					688,914
Payment of refunding debt					(688,914)
Anticipatory warrants issued					300,000
Miscellaneous					7,729
Total general receipts					974,753
Change in cash basis net assets					(35,750)
Cash basis net assets beginning of year					290,285
Cash basis net assets end of year					\$ 254,535
Cash Basis Net Assets					
Restricted:					
Streets				\$	125,444
Local option sales tax					92,993
Debt service					(10,419)
Other purposes					71,803
Unrestricted					(25,286)
Total cash basis net assets				\$	254,535

See notes to financial statements.

City of Lamoni

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2005

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Debt Service
Receipts:				
Property tax	\$ 294,173	-	-	70,571
Tax increment financing collections	-	-	-	-
Other city tax	13,148	-	110,783	-
Licenses and permits	3,238	-	-	-
Use of money and property	21,148	-	-	-
Intergovernmental	37,200	203,209	-	-
Charges for service	172,962	-	-	-
Miscellaneous	40,469	-	-	180,260
Total receipts	582,338	203,209	110,783	250,831
Disbursements:				
Operating:				
Public safety	168,740	-	2,096	-
Public works	171,494	169,329	14,665	-
Culture and recreation	170,481	-	51,251	-
Community and economic development	13,238	-	-	-
General government	107,509	-	4,261	-
Debt service	-	-	-	275,348
Capital projects	-	-	-	-
Total disbursements	631,462	169,329	72,273	275,348
Excess (deficiency) of receipts over (under) disbursements	(49,124)	33,880	38,510	(24,517)
Other financing sources (uses):				
Refunding bond proceeds, net of \$10,500 discount	-	-	-	688,914
Payment of refunding debt	-	-	-	(688,914)
Anticipatory warrants issued	-	-	-	-
Operating transfers in	-	-	-	25,000
Operating transfers out	-	-	(100,000)	-
Total other financing sources (uses)	-	-	(100,000)	25,000
Net change in cash balances	(49,124)	33,880	(61,490)	483
Cash balances beginning of year	24,152	91,564	154,483	(10,902)
Cash balances end of year	\$ (24,972)	125,444	92,993	(10,419)
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	(10,419)
Unreserved:				
General fund	(24,972)	-	-	-
Special revenue funds	-	125,444	92,993	-
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ (24,972)	125,444	92,993	(10,419)

See notes to financial statements.

Capital Projects	Other Nonmajor	
Fire/EMS	Governmental	
Building	Funds	Total
-	107,952	472,696
-	46,607	46,607
-	-	123,931
-	-	3,238
-	154	21,302
100,000	105,242	445,651
-	-	172,962
25,000	114,682	360,411
125,000	374,637	1,646,798
-	69,585	240,421
-	40,076	395,564
-	59,063	280,795
-	62,060	75,298
-	25,053	136,823
-	-	275,348
492,099	86,200	578,299
492,099	342,037	1,982,548
(367,099)	32,600	(335,750)
-	-	688,914
-	-	(688,914)
300,000	-	300,000
75,000	-	100,000
-	-	(100,000)
375,000	-	300,000
7,901	32,600	(35,750)
-	30,988	290,285
7,901	63,588	254,535
-	-	(10,419)
-	-	(24,972)
-	61,022	279,459
7,901	(8,215)	(314)
-	10,781	10,781
7,901	63,588	254,535

City of Lamoni

City of Lamoni
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Lamoni is a political subdivision of the State of Iowa located in Decatur County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Lamoni has included all funds, organizations, agencies, boards, commissions and authorities, except for its enterprise fund, the Lamoni Municipal Utilities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Lamoni Municipal Utilities – Enterprise Fund

On January 1, 1994 the Lamoni Municipal Utilities Board was officially discontinued. Prior to January 1, 1994, the Lamoni Municipal Utilities was a component unit of the City and used a calendar year end for financial reporting purposes. No portion of the financial information for the year ended December 31, 2004, nor the six months ended June 30, 2005, has been included in these governmental fund type financial statements. A copy of the Utilities' audited financial statements may be obtained from the Utilities' office.

Jointly Governed Organizations

The City participates in three jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commission: County Emergency Management Commission, Decatur County Development Network, and Southern Iowa Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For

the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for public safety and culture and recreation funded by local option monies.

The Road Use Tax Fund is used to account for street maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects, Fire/EMS Building Fund is used to account for the construction of the new Fire/EMS Building project.

C. Measurement Focus and Basis of Accounting

The City of Lamoni maintains its financial records on the basis of cash receipts and disbursements and the governmental fund type financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the governmental fund type financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2005 are as follows:

Type	Carrying Amount	Fair Value	Maturity
EE bonds	\$ 275	275	January 2015

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable/Other Debt

Annual debt service requirements to maturity for general obligation bonds and notes, revenue bonds and notes, and other debt are as follows:

Year Ending June 30,	General Obligation		Revenue		Other Debt		Total	
	Bonds and Notes		Bonds and Notes					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 73,000	32,264	140,000	49,335	9,813	876	222,813	82,475
2007	78,000	28,585	142,000	45,515	9,927	762	229,927	74,862
2008	79,000	24,608	148,000	41,350	10,045	644	237,045	66,602
2009	84,000	20,561	154,000	36,760	10,166	523	248,166	57,844
2010-2014	235,000	45,187	484,000	115,340	43,264	804	762,264	161,331
2015-2019	96,000	15,591	311,000	60,330	30,000	-	437,000	75,921
2020-2022	22,000	845	212,000	12,810	8,500	-	242,500	13,655
Total	\$667,000	167,641	1,591,000	361,440	121,715	3,609	2,379,715	532,690

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are in the amount of \$125,000 and payable over ten years. The bond agreement states that the issue is limited to the ten-year period or \$125,000. The principal amount due each year is calculated on the amount of incremental taxes collected for that year. The balance of the bonds outstanding at June 30, 2005 was \$15,459. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the water revenue refunding notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) \$70,000 is required to be maintained in a water revenue note reserve account. The account is restricted for the purpose of paying the note principal and interest payments whenever, for any reason, the funds in the water revenue note sinking account is insufficient to pay such principal and interest when due.
- (d) Monthly transfers of \$1,500 shall be made to the water revenue note improvement and extension account, after the sinking and reserve funds have been adequately funded. Transfers are to be made until \$125,000 has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for correcting any deficiencies in the sinking and revenue accounts.
- (e) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed

in water revenue surplus account within the Enterprise Funds until a minimum of \$125,000 is accumulated. This account is restricted for the purpose of correcting any deficiencies the sinking, reserve, and improvement and extension accounts.

- (f) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the next year.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in water revenue surplus account within the Enterprise Funds. This account is restricted for the purpose of correcting any deficiencies the sinking account.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

As noted in the Schedule of Findings, the City is not in compliance with the provisions of the water or sewer revenue bonds.

Refunded Water Revenue Bonds

On November 15, 2004, the City issued \$700,000 of water revenue refunding bonds, with interest rates ranging from 2.25% to 3.80%, for a current refunding of a portion of the water revenue bonds issued June 1, 1993.

Annual debt service requirements to maturity of the water revenue refunding bonds are as follows:

Year Ending June 30,	Water Revenue Refunding Bonds	
	Issued Nov. 15, 2004	
	Principal	Interest
2006	\$ 95,000	19,905
2007	95,000	17,435
2008	100,000	14,680
2009	105,000	11,530
2010-2014	215,000	12,140
Total	<u>\$ 610,000</u>	<u>75,690</u>

During the year ended June 30, 2005, \$700,000 of the water revenue refunding bonds were retired.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$19,436, \$18,875 and \$18,027, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, personal, and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, personal and compensatory time termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 7,202
Sick leave	36,598
Personal	1,768
Compensatory time	<u>4,480</u>
Total	<u>\$ 50,048</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Commitment – Colony Housing Authority

In December 1979, the city entered into an agreement with Colony Housing Authority (CHA) of Lamoni whereby CHA, who constructed and maintains a multiple dwelling complex for senior citizens, agreed to provide dining facilities for 30 additional persons. In consideration for the above, the City agreed to pay CHA \$500 per month commencing October 1, 1980, for a period of 480 months. The remaining balance at June 30, 2005 is \$92,500.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Local Option Sales Tax	<u>25,000</u>
Capital Projects: Fire/EMS Building	Special Revenue: Local Option Sales Tax	<u>75,000</u>
Total		<u>\$ 100,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Notes Payable – Governmental Fund Types

On April 12, 2002, the City entered in to a loan agreement with the Iowa Department of Transportation out of the Aviation Hangar Revolving Loan Fund (HRLF) Program. The loan was issued for improvements at the Lamoni Municipal Airport consisting of renovating the hangar to increase available space from 7 units to 14. The loan is a ten year 3 percent loan in the amount of \$40,000. Future payments on the loan are as follows:

	Principal	Interest
2006	\$ 3,813	876
2007	3,927	762
2008	4,045	644
2009	4,166	523
2010	4,291	398
2011	4,420	269
2012	4,553	137
	<u>\$ 29,215</u>	<u>3,609</u>

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,697 during the year ended June 30, 2005.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations.

Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Economic Development

In June of 1994, the City approved the issuance of an Urban Renewal Tax Increment Financing Bond in the amount of \$125,000 for A-Z Manufacturing Company. The City also authorized an Economic Development Grant to A-Z Manufacturing Company in connection with the company's development of an expanded facility in the Lamoni Urban Renewal Area. The grant was in the form of a Bond, where the Company is entitled to receive as principal payments on the Bond all incremental property taxes paid by the company for a period of ten years. The City also must pay the Company an amount equal to a five year rebate of City taxes based on a declining scale of a 75%, 60%, 45%, 30%, and 15% rebate for the five years.

On June 20, 1996, the City entered into a Community Economic Betterment Account (CEBA) loan agreement with the Iowa Department of Economic Development (IDED) and Industrial Hardsurfacing, Inc. (IHI). The entire loan consists of two loans, one in the amount of \$88,088 for ten years at zero percent interest and one in the amount of \$105,512 for five years at six percent interest. The entire loan proceeds of \$193,600 were received by the City and advanced to IHI. In the event the City or IHI defaults on the conditions set forth in the loan agreement, the loan will become immediately due. The City's liability for repayment of this note to the IDED is limited to those amounts the City collects through its good faith enforcement of the security interest which secures its loan to IHI.

(12) Wayne, Ringgold, and Decatur County Solid Waste Management Commission

The City, in conjunction with thirty-one other municipalities and counties, has created the Wayne, Ringgold, and Decatur County Solid Waste Management Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is governed by a board composed of an elected representative of the governed body of each participating governmental jurisdiction.

The Commission may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, therefore, the City has an ongoing financial obligation.

Completed financial statements for the Commission can be obtained from the Commission.

(13) Leases

The City leases out the Welcome Center, gift shop, and storage space to Gateway Mercantile. Rent received from the Welcome Center during the fiscal year was \$12,000. The city is also a party to various small leases for hangars at the airport, hay ground, and pasture rental. The amounts received under these leases are all immaterial.

(14) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City has issued \$300,000 in anticipatory warrants, at 3.90% interest per annum, for construction of the Fire/EMS building. The unpaid balance as of June 30, 2005 is \$300,000.

(15) State Revolving Fund (SRF) Loan

During the year ended December 31, 2001, the Utilities received \$298,000 from the Iowa Department of Natural Resources Drinking Water State Revolving Fund loan program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their water improvement project. The Utilities will repay the loan to the City who will repay the loan program. It is the sole responsibility of the City of Lamoni to repay the loan because it is a general obligation of the City.

(16) Water Revenue Refunding Bonds

During the year ended December 31, 2004, the Utilities received \$700,000 to refund the 1993 Water Revenue Bonds. The bond proceeds were received by the City and passed through to the Utilities, the loan agreement is in the name of the City of Lamoni. The Utilities will make payments on the bonds to the City who will repay the lender. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(17) State Revolving Fund (SRF) Loan

During the year ended December 31, 2002, the Utilities received \$594,000 and \$514,000 from the Iowa Department of Natural Resources Sewage Treatment Works Financing Program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their wastewater treatment system project. The Utilities will repay the loan to the City who will repay the loan program. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(18) Development Agreements

On August 9, 2001, the City entered into an agreement with Saab Auto and Lease, L.L.C. where the City will make economic development tax rebate payments to the Company for ten fiscal years during the term of the agreement. The amounts paid will represent the incremental property taxes paid with respect to the project by the company in that fiscal year. The tax rebate payments shall not constitute general obligations of the City, but shall be paid solely and only from incremental property taxes received by the City attributable to the property.

On April 10, 2003, the City entered into a development agreement with Southern Iowa Building Center, Inc. where the City agreed to make economic development tax rebate payments to the developer for ten fiscal years during the term of the agreement. The amounts paid will represent the property taxes paid with respect to the incremental value of the project minus the amount of taxes levied. The rebate payments will be made on December 1 and June 1 of each fiscal year, beginning December 1, 2005 and continuing through and including June 1, 2014. The tax payments shall not constitute general obligations of the City but shall be paid solely and only from incremental property taxes received by the City.

(19) Deficit Fund Balance

The City had the following deficit balances at June 30, 2005:

General Fund		\$ 24,972
Special Revenue Funds	Library Vision Iowa	304
	Police Grant	20
	Fire Department Grant	500
	Little League	169
	Community Center Roccs Grant	71
	Airport Hangars	3,364
	Airport Beacon	4,246
Debt Service Fund		10,419
Capital Projects Fund	Recreation Trail	8,215

(20) Construction Commitment

The City entered into a construction contract during the year for Phase II of the Recreation Trail totaling \$52,268. As of June 30, 2005, the remaining balance is \$52,268.

(21) Subsequent Events

In July 2005, the City approved issuance of \$300,000 general obligation fire station bonds. As of June 30, 2005 none were issued or outstanding.

In July 2005, the City approved taking legal action against SLT Expressway for reimbursement of damages done to the recreation trail.

Required Supplementary Information

City of Lamoni
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental	Budgeted Amounts		Final to
	Funds			Net
	Actual	Original	Final	Variance
Receipts:				
Property tax	\$ 472,696	468,235	468,235	4,461
Tax increment financing collections	46,607	43,800	46,600	7
Other city tax	123,931	88,000	113,000	10,931
Licenses and permits	3,238	4,460	4,460	(1,222)
Use of money and property	21,302	17,600	24,600	(3,298)
Intergovernmental	445,651	244,445	1,382,645	(936,994)
Charges for service	172,962	198,260	200,760	(27,798)
Miscellaneous	360,411	12,625	180,625	179,786
Total receipts	<u>1,646,798</u>	<u>1,077,425</u>	<u>2,420,925</u>	<u>(774,127)</u>
Disbursements:				
Public safety	240,421	232,401	725,401	484,980
Public works	395,564	373,958	378,458	(17,106)
Culture and recreation	280,795	211,230	293,230	12,435
Community and economic development	75,298	57,260	77,260	1,962
General government	136,823	141,487	141,487	4,664
Debt service	275,348	95,089	998,089	722,741
Capital projects	578,299	-	141,000	(437,299)
Total disbursements	<u>1,982,548</u>	<u>1,111,425</u>	<u>2,754,925</u>	<u>772,377</u>
Deficiency of receipts under disbursements	(335,750)	(34,000)	(334,000)	(1,750)
Other financing sources, net	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements	(35,750)	(34,000)	(34,000)	(1,750)
Balances beginning of year	<u>290,285</u>	<u>301,376</u>	<u>290,285</u>	<u>-</u>
Balances end of year	<u>\$ 254,535</u>	<u>267,376</u>	<u>256,285</u>	<u>(1,750)</u>

See accompanying independent auditors' report.

City of Lamoni

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$1,343,500 and \$1,643,500, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works and capital projects functions.

Other Supplementary Information

City of Lamoni

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	Employee Benefits	Community Center/ Elliott Trust	Library Memorial	Library Book Trust
Receipts:				
Property tax	\$ 107,952	-	-	-
Tax increment financing collections	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	730	4,951
Total receipts	107,952	-	730	4,951
Disbursements:				
Operating:				
Public safety	33,103	-	-	-
Public works	27,996	-	-	-
Culture and recreation	18,783	-	623	5,175
Community and economic development	793	-	-	-
General government	25,053	-	-	-
Capital projects	-	-	-	-
Total disbursements	105,728	-	623	5,175
Excess (deficiency) of receipts over (under) disbursements	2,224	-	107	(224)
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in cash balances	2,224	-	107	(224)
Cash balances beginning of year	2,605	875	2,274	4,006
Cash balances end of year	\$ 4,829	875	2,381	3,782
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 4,829	875	2,381	3,782
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 4,829	875	2,381	3,782

See accompanying independent auditors' report.

Special Revenue								
Bi-Centennial Trust	DARE Program	Library Vision Iowa	Fire Department ROCCS Grant	Bjorland Development	Welcome Center	Fire Department LMS	Reese Development	Library Building
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	50	12,696	2,950	-	-	-	-	-
-	50	12,696	2,950	-	-	-	-	-
-	158	-	1,800	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	10,643	-	-	-	-	-	4
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	158	10,643	1,800	-	-	-	-	4
-	(108)	2,053	1,150	-	-	-	-	(4)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	(108)	2,053	1,150	-	-	-	-	(4)
296	857	(2,357)	1,800	2,500	50	500	2,000	14,824
296	749	(304)	2,950	2,500	50	500	2,000	14,820
296	749	(304)	2,950	2,500	50	500	2,000	14,820
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
296	749	(304)	2,950	2,500	50	500	2,000	14,820

City of Lamoni

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue					
	EMS	Police Restitution	Historic Tours	North Park Betterment	CDBG Real Estate Trust	Caboose Renovation Trust
Receipts:						
Property tax	\$ -	-	-	-	-	-
Tax increment financing collections	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	6,786	-	32,181	-	-
Total receipts	-	6,786	-	32,181	-	-
Disbursements:						
Operating:						
Public safety	-	6,786	-	-	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	17,299	-	76
Community and economic development	-	-	-	-	-	-
General government	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	-	6,786	-	17,299	-	76
Excess (deficiency) of receipts over (under) disbursements	-	-	-	14,882	-	(76)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in cash balances	-	-	-	14,882	-	(76)
Cash balances beginning of year	200	-	283	615	1,503	98
Cash balances end of year	\$ 200	-	283	15,497	1,503	22
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	\$ 200	-	283	15,497	1,503	22
Capital projects funds	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 200	-	283	15,497	1,503	22

See accompanying independent auditors' report.

Special Revenue								
Airport Trust	Police Grant	Fire Department Grant	Trees Forever	Parks-Harrington	Xmas Light Donations	Youth Fund	Police Computer	Little League
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	4,743	-	-	2,400
-	-	-	-	-	4,743	-	-	2,400
-	-	-	-	-	-	-	2,135	-
-	-	-	-	-	4,470	-	-	-
-	-	-	-	-	-	-	-	2,836
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	4,470	-	2,135	2,836
-	-	-	-	-	273	-	(2,135)	(436)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	273	-	(2,135)	(436)
1,198	(20)	(500)	41	702	-	125	2,305	267
1,198	(20)	(500)	41	702	273	125	170	(169)
1,198	(20)	(500)	41	702	273	125	170	(169)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,198	(20)	(500)	41	702	273	125	170	(169)

City of Lamoni

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue				
	Fire Department Building	Recreation/ Special Events	Park Benches/ Trail	Community Center Roses Grant	Community Center Roccs Grant
Receipts:					
Property tax	\$ -	-	-	-	-
Tax increment financing collections	-	-	-	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	24,827	-	453	1,200	1,900
Total receipts	24,827	-	453	1,200	1,900
Disbursements:					
Operating:					
Public safety	25,603	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	453	1,200	1,971
Community and economic development	-	-	-	-	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	25,603	-	453	1,200	1,971
Excess (deficiency) of receipts over (under) disbursements	(776)	-	-	-	(71)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in cash balances	(776)	-	-	-	(71)
Cash balances beginning of year	7,883	206	-	-	-
Cash balances end of year	\$ 7,107	206	-	-	(71)
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 7,107	206	-	-	(71)
Capital projects funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 7,107	206	-	-	(71)

See accompanying independent auditors' report.

Special Revenue					Capital Projects		Permanent	Total
Welcome Center Vision Iowa	Housing Acquisition/ Demolition	Airport Hangars	Airport Beacon	Tax Increment Financing	Recreation Trail	Capital Improvements	Jeffries Library Memorial	
-	-	-	-	-	-	-	-	107,952
-	-	-	-	46,607	-	-	-	46,607
-	-	-	-	-	-	-	154	154
-	-	-	-	-	105,242	-	-	105,242
9,718	9,097	-	-	-	-	-	-	114,682
9,718	9,097	-	-	46,607	105,242	-	154	374,637
-	-	-	-	-	-	-	-	69,585
-	-	3,364	4,246	-	-	-	-	40,076
-	-	-	-	-	-	-	-	59,063
9,718	6,313	-	-	45,236	-	-	-	62,060
-	-	-	-	-	-	-	-	25,053
-	-	-	-	-	84,187	2,013	-	86,200
9,718	6,313	3,364	4,246	45,236	84,187	2,013	-	342,037
-	2,784	(3,364)	(4,246)	1,371	21,055	(2,013)	154	32,600
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	2,784	(3,364)	(4,246)	1,371	21,055	(2,013)	154	32,600
-	-	-	-	2,482	(29,270)	2,013	10,627	30,988
-	2,784	(3,364)	(4,246)	3,853	(8,215)	-	10,781	63,588
-	2,784	(3,364)	(4,246)	3,853	-	-	-	61,022
-	-	-	-	-	(8,215)	-	-	(8,215)
-	-	-	-	-	-	-	10,781	10,781
-	2,784	(3,364)	(4,246)	3,853	(8,215)	-	10,781	63,588

City of Lamoni
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvement notes	Dec. 1, 2000	5.20 - 5.60%	\$ 530,000
General obligation bonds:			
Water improvement bonds	Mar. 1, 2001	3.84%	\$ 298,000
Urban renewal tax increment financing (TIF) urban renewal bond	Jun. 9, 1994	N/A	\$ 125,000
Other debt:			
Airport loan	Apr. 12, 2002	3.00%	\$ 40,000
Crown colony contract	Oct. 1, 1980	N/A	240,000
Iowa department of economic development:			
CORDLAP loan	Jan. 1, 1991	3.00%	\$ 40,000
Total			
Revenue bonds:			
SRF sewer revenue bonds	Jun. 30, 2002	3.00%	\$ 514,000
SRF sewer revenue bonds	Oct. 15, 2002	3.00%	594,000
Total			
Revenue notes:			
Water revenue refunding notes	Nov. 15, 2004	2.25 - 3.80%	\$ 700,000
Anticipatory warrants:			
Fire station anticipation note	Jun. 8, 2005	3.90%	\$ 300,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
475,000	-	60,000	415,000	25,737	-
264,000		12,000	252,000	5,069	-
25,815	-	10,356	15,459	-	-
32,917	-	3,702	29,215	988	-
98,500	-	6,000	92,500	-	-
3,253	-	3,253	-	97	-
\$ 134,670	-	12,955	121,715	1,085	-
475,000	-	20,000	455,000	7,125	-
549,000	-	23,000	526,000	8,235	-
\$ 1,024,000	-	43,000	981,000	15,360	-
	700,000	90,000	610,000	11,940	-
-	300,000	-	300,000	6,014	-

City of Lamoni
Bond and Note Maturities
June 30, 2005

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF)		General Obligation Bonds and Notes				
			Street Improvement		Water Improvement		Total
	Issued June 9, 1994		Issued Dec. 1, 2000		Issued Mar. 1, 2001		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2006	N/A	**	5.30%	\$ 60,000	3.84%	\$ 13,000	\$ 73,000
2007		-	5.35	65,000	3.84	13,000	78,000
2008		-	5.40	65,000	3.84	14,000	79,000
2009		-	5.45	70,000	3.84	14,000	84,000
2010		-	5.50	75,000	3.84	15,000	90,000
2011		-	5.60	80,000	3.84	15,000	95,000
2012		-		-	3.84	16,000	16,000
2013		-		-	3.84	17,000	17,000
2014		-		-	3.84	17,000	17,000
2015		-		-	3.84	18,000	18,000
2016		-		-	3.84	18,000	18,000
2017		-		-	3.84	19,000	19,000
2018		-		-	3.84	20,000	20,000
2019		-		-	3.84	21,000	21,000
2020		-		-	3.84	22,000	22,000
Total	\$	-		\$ 415,000		\$ 252,000	\$ 667,000

** The TIF Urban Renewal Bond payments are based on the taxes that are paid in the TIF zone. Therefore, the amount of the payments are not readily determinable due to the unknown amounts that will be paid in for taxes. The balance of the bonds outstanding at June 30, 2005, was \$15,459.

See accompanying independent auditors' report.

Year Ending June 30,	Revenue Bonds and Notes						Total
	SRF Sewer Revenue		SRF Sewer Revenue		Water Revenue Refunding		
	Issued June 30, 2002		Issued Oct. 15, 2002		Issued Nov. 15, 2004		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2006	3.00%	21,000	3.00%	\$ 24,000	2.60%	\$ 95,000	\$ 140,000
2007	3.00	22,000	3.00	25,000	2.90	95,000	142,000
2008	3.00	22,000	3.00	26,000	3.15	100,000	148,000
2009	3.00	23,000	3.00	26,000	3.40	105,000	154,000
2010	3.00	23,000	3.00	27,000	3.60	105,000	155,000
2011	3.00	24,000	3.00	28,000	3.80	110,000	162,000
2012	3.00	25,000	3.00	29,000	-	-	54,000
2013	3.00	26,000	3.00	30,000	-	-	56,000
2014	3.00	26,000	3.00	31,000	-	-	57,000
2015	3.00	27,000	3.00	32,000	-	-	59,000
2016	3.00	28,000	3.00	32,000	-	-	60,000
2017	3.00	29,000	3.00	33,000	-	-	62,000
2018	3.00	30,000	3.00	34,000	-	-	64,000
2019	3.00	31,000	3.00	35,000	-	-	66,000
2020	3.00	32,000	3.00	37,000	-	-	69,000
2021	3.00	33,000	3.00	38,000	-	-	71,000
2022	3.00	33,000	3.00	39,000	-	-	72,000
Total		\$ 455,000		\$ 526,000		\$ 610,000	\$ 1,591,000

Year Ending June 30,	Other Debt				
	Crown Colony Contract		Airport Loan		
	Issued Oct. 1, 1980		Issued Apr. 12, 2002		
	Interest Rates	Amount	Interest Rates	Amount	Total
2006	N/A	\$ 6,000	3.00	\$ 3,813	\$ 9,813
2007		6,000	3.00	3,927	9,927
2008		6,000	3.00	4,045	10,045
2009		6,000	3.00	4,166	10,166
2010		6,000	3.00	4,291	10,291
2011		6,000	3.00	4,420	10,420
2012		6,000	3.00	4,553	10,553
2013		6,000		-	6,000
2014		6,000		-	6,000
2015		6,000		-	6,000
2016		6,000		-	6,000
2017		6,000		-	6,000
2018		6,000		-	6,000
2019		6,000		-	6,000
2020		6,000		-	6,000
2021		2,500		-	2,500
Total		\$ 92,500		\$ 29,215	\$ 121,715

City of Lamoni

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	2005	2004
Receipts:		
Property tax	\$ 472,696	470,646
Tax increment financing collections	46,607	30,214
Other city tax	123,931	102,130
Licenses and permits	3,238	4,340
Use of money and property	21,302	15,397
Intergovernmental	445,651	272,793
Charges for service	172,962	151,651
Miscellaneous	360,411	127,047
Total	\$ 1,646,798	1,174,218
Disbursements:		
Operating:		
Public safety	\$ 240,421	253,426
Public works	395,564	373,860
Culture and recreation	280,795	232,608
Community and economic development	75,298	47,938
General government	136,823	138,504
Debt service	275,348	122,947
Capital projects	578,299	39,103
Total	\$ 1,982,548	1,208,386

See accompanying independent auditors' report.

City of Lamoni

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
And Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the governmental fund type financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lamoni, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic governmental fund type financial statements listed in the table of contents and have issued our report thereon dated August 25, 2005. Our report expressed an unqualified opinion on the governmental fund type financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Lamoni's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the governmental fund type financial statements and not to provide and opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lamoni's ability to record, process, summarize and report financial data consistent with the assertions of management in the governmental fund type financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the governmental fund type financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lamoni's governmental fund type financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which

could have a direct and material effect on the determination of governmental fund type financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the governmental fund type financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lamoni and other parties to whom the City of Lamoni may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lamoni during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 25, 2005
Ames, Iowa

City of Lamoni

Schedule of Findings

Year ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) An adverse opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including one material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Lamoni

Schedule of Findings

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-05 Invoices – Invoices were not properly cancelled to prevent reuse.

Recommendation – Invoices should be cancelled in the future.

Response – We will do so.

Conclusion – Response acknowledged.

- II-C-05 Lamoni Municipal Utilities – The Utilities' records should have been included in the City's books and budget because the Utilities is a department of the City. The Utilities is operating under a calendar year which is not allowed under Chapter 384.2 of the Code of Iowa. The Utilities is also operating under a separate basis of accounting.

Recommendation – The City should adopt a resolution to change the Utilities year end to June 30 to comply with Chapter 384.2 of the Code of Iowa. The City should also include the Utilities in the City's budget. In addition the City should adopt a resolution to change the Utilities basis of accounting.

Response – Resolutions to make the recommended changes were approved December 19, 2005.

Conclusion – Response acknowledged.

City of Lamoni

Schedule of Findings

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public works and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Also, Lamoni Municipal Utilities was not included in the City's budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should include all departments in the budget.

Response – We will do so.

Conclusion – Response accepted.

III-C-05 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Grocery supplies	\$ 647
Hy-Vee	Gardening supplies	1,380
Hy-Vee	Grocery supplies	454

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

City of Lamoni

Schedule of Findings

Year ended June 30, 2005

III-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Ballantyne, Council Member, Owner of Mark's Auto Service	Repairs and services	\$ 826
Tailored Threads, Owned by spouse of Mayor	Services and supplies	11
Brad Kinney, Spouse of Utilities employee	Repairs and services	920
Anders Crane Service, Owned by spouse of Council Member	Services	940

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the above individuals do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

III-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-05 Council Minutes – A few transactions were found that we believe should have been approved in the Council minutes but were not. A disbursement to transfer funds and a contract change order were not approved by Council.

Recommendation – The Council should approve all disbursements and change orders.

Response – We will do so.

Conclusion – Response accepted.

III-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy were noted.

City of Lamoni
Schedule of Findings

Year ended June 30, 2005

III-I-05 Financial Condition – The City had the following deficit balances at June 30, 2005:

General Fund		\$ 24,972
Special Revenue Funds	Library Vision Iowa	304
	Police Grant	20
	Fire Department Grant	500
	Little League	169
	Community Center Roccs Grant	71
	Airport Hangars	3,364
	Airport Beacon	4,246
Debt Service Fund		10,419
Capital Projects Fund	Recreation Trail	8,215

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.

III-J-05 Revenue Bonds and Notes – The resolution providing for the issuance of the 2004 water revenue refunding notes requires that monthly transfers be made to a water revenue note sinking account until the minimum balance is met. This account is below the minimum required balance by approximately \$8,326 at June 30, 2005. Also, user rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the next year. Net revenues for the year ended June 30, 2005 did not meet the minimum amount.

In addition, the City is required by the resolution providing for the issuance of the sewer revenue bonds to establish user rates at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year. Net revenues for the year ended June 30, 2005 did not meet the minimum amount.

Recommendation – The City should make the necessary transfers to bring the water revenue note sinking account to the required balance. The City should also adjust user rates to comply with the resolution requirements for the water revenue refunding notes and the sewer revenue bonds.

Response – We will do so.

Conclusion – Response accepted.

III-K-05 Code of Ordinances – The City's code of ordinances has not been maintained as required by Chapter 380.8 of the Code of Iowa.

City of Lamoni

Schedule of Findings

Year ended June 30, 2005

Recommendation – The City should compile the code of ordinances to bring it into compliance with Chapter 380.8 of the Code of Iowa.

Response – We are in the process of compiling the code of ordinances.

Conclusion – Response accepted.

- III-L-05 Debt Service Fund – A portion of the taxes levied for debt service purposes were not recorded in the Debt Service Fund.

Recommendation – Tax receipts for debt service purposes should be recorded in the Debt Service Fund. A transfer should be made to correct this.

Response – We will do so.

Conclusion – Response accepted.

- III-M-05 Outstanding Checks – Unclaimed property per Chapter 556.1(10) of the Code of Iowa has not been reported to the State Treasurer as required

Recommendation – The City should comply with Chapter 556.1(10) of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

- III-N-05 Notice of Public Hearing and Bidding Requirements for Public Improvements – The City did not publish a notice of public hearing and bid letting on the recreating trail bridge project as required by Chapter 362.3 of the Code of Iowa. The City also did not take bids on the project as required by Chapter 385.96 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvements where the cost is \$25,000 or more, the Council should set a date for a public hearing and give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa. The City should also advertise for sealed bids when the cost is more than \$25,000 by publishing a notice to bidders giving notice of more than twenty days but not more than forty-five days before the date for filing bids as provided in Chapter 385.96 of the Code of Iowa.

Response – We will publish the appropriate notices in the future as required.

Conclusion – Response accepted.